(37)

No. 05-130

IN THE
Supreme Court of the United States

EBAY.COM INC. AND HALF.COM, INC.,
Petitioners

v.

MERCEXCHANGE L.L.C.,
Respondent.

On Writ of Certiorari
to the United States Court of Appeals
for the Federal Circuit

BRIEF OF THE AMERICAN BAR ASSOCIATION AS *AMICUS CURIAE* SUPPORTING RESPONDENT

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QUESTIONS PRESENTED

I. Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

II. Whether this Court should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

TABLE OF CONTENTS

INTEREST OF THE AMICUS CURIAE 1

SUMMARY OF THE ARGUMENT 2

ARGUMENT 5

I. This Court's Longstanding Precedent Should Not Be Upset. 5

II. Absent Exceptional Circumstances, Equity Favors The Entry Of A Permanent Injunction Against An Adjudicated Infringer Of A Valid Patent. 7

III. The Other Factors Suggested By Petitioners And Amici That Support Their Position Are Not Valid Equitable Considerations. 8

A. Congress Has Exclusive Authority To Establish New Equitable Defenses That Did Not Exist At Common Law 9

B. Independent Discovery Without Notice Of The Patent And A "Close Case Of Infringement" Are Not Viable Equitable Defenses. 10

C. General Issues Relating To Patent Quality Are Not Valid Reasons To Refuse An Injunction Upon A Patent That Has Been Found Valid And Infringed. 11

D. Whether To Limit The Availability Of Injunctive Relief To Certain Classes Of Patentees Is A Decision Reserved To Congress. 11

IV. There Would Be Significant Consequences If This Court Changes The Current Standard For Granting Injunctions 14

A. There Would Be Significant Adverse Consequences To Existing Exclusive Licenses. 14

B. There Would Be Significant Adverse Consequences To Existing Nonexclusive Licenses. 15

C. A Change In The General Rule Will Lead To Additional Litigation And Promote Forum-Shopping 16

CONCLUSION 17

TABLE OF AUTHORITIES

Cases

Allington & Curtis Mfg. Co. v. Booth, 78 F. 878 (2d Cir. 1897) 8

Atlantic Works v. Brady, 107 U.S. 192 (1883) 13

Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405 (1908) 3, 5, 8

Ford Motor Co. v. E.E.O.C., 458 U.S. 219 (1982) 9

Graham v. John Deere & Co., 383 U.S. 1 (1966) 6

Grupo Mexicano De Desarrollo, S.A., v. Alliance Bond Fund, Inc., 527 U.S. 308 (1999) 10

Livingston v. Van Ingen, 9 Johns. 507 (N.Y. 1812) 7

MercExchange L.L.C. v. eBay.com Inc., 401 F.3d 1323 (Fed. Cir. 2005) 4

Northwest Airlines, Inc., v. Transport Workers Union of America, AFL-CIO, 451 U.S. 77 (1981) 9, 10

Rite Hite Corp. v. Kelley Co., 56 F.3d 1538 (Fed. Cir. 1995)(en banc) 8

Smith Intern., Inc. v. Hughes Tool Co., 718 F.2d 1573 (Fed. Cir. 1983) 7

Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969) 3

Statutes

28 U.S.C. § 1498(a) 6

35 U.S.C. § 154(a)(1) 3

35 U.S.C. § 271 10

35 U.S.C. § 282 11

35 U.S.C. § 283 ..... 4, 6

35 U.S.C. § 284 ..... 7, 12

Other Authorities

Albert H. Walker, *Textbook of the Patent Laws of the United States of America* (1883) 5

Case Western Reserve University, *Technology Transfer Office 2005 Annual Report* (2005) 12

David Epstein, *Eckstrom's Licensing in For. & Dom. Ops.* (2005) 15

Harold Einhorn & Thomas J. Parker, *Patent Licensing Transactions* (2005 ed.) 16

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Hearing of Senate Judiciary Committee, Subcommittee on Intellectual Property, *Patent Law Reform: Injunctions and Damages* (June 14, 2005). 13

House Report No. 97-312, 97th Cong. 1st Sess. (1981)(reprinted in *Chisum on Patents* at A21-7 to A21-11). 17

John Norton Pomeroy, *A Treatise on Equity Jurisprudence* (Spencer W. Symons ed., 5th ed. 1941) 5

Senate Report Accompanying Senate Bill 239, 24th Congress, 1 Session (*Chisum on Patents* Appendix 12 at 4). 13

Thomas Carl Spelling, *Treatise on Injunctions & Other Extraordinary Remedies* (2d ed. 1901). 5

University of Michigan Tech Transfer, 2005 *Annual Report* (2005) 12

William C. Robinson, *The Law of Patents for Useful Inventions* (1890) 5, 7

William Story, *Commentaries on Equity Jurisprudence* (1836) 8

INTEREST OF THE AMICUS CURIAE[1]

The American Bar Association ("ABA"), with more than 407,000 members, is the leading national membership organization of the legal profession. Its members come from each of the fifty states, the District of Columbia, and the U.S. territories. Membership is voluntary and includes attorneys in private practice, government service, corporate law departments, and public interest organizations, as well as legislators, law professors, law students, and non-lawyer associates in related fields.[2] ABA members represent the full spectrum of public and private litigants, including plaintiffs and defendants.

The ABA's Section of Intellectual Property Law is the world's largest organization of intellectual property professionals, with 19,000 members including lawyers, associates, and law students. In recognition of the uniqueness of patent law, including the special importance of predictable rules governing patent claims, the ABA established the intellectual property section in 1894 as the first ABA section to deal with a special branch of the law. The Section has contributed significantly to the development of the American system for the protection of intellectual property rights. The Section comprises lawyers of diverse

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[1] Pursuant to Rule 37.6, *amicus curiae* certifies that no counsel for a party authored this brief in whole or in part and that no person or entity, other than *amicus*, its members, or its counsel, has made a monetary contribution to the preparation or submission of this brief. The parties have filed letters consenting to the filing of this brief with the Clerk of this Court.

[2] Neither this brief nor the decision to file it should be interpreted to reflect the views of any judicial member of the American Bar Association. No inference should be drawn that any member of the Judicial Division Council has participated in the adoption or endorsement of the positions in this brief. This brief was not circulated to any member of the Judicial Division Council prior to filing.

backgrounds who represent patent owners, accused infringers, individual inventors, large and small corporations, universities and research institutions across a wide range of technologies and industries.

In response to this Court's grant of certiorari in this case, the ABA Section of Intellectual Property Law proposed that a resolution opposing the positions taken by the Petitioners be adopted as the policy of the ABA. This proposal stemmed from the Section's firm belief that a patent owner's rights should not be made to depend on the nature of its patented invention or whether the patentee chooses to practice its invention or to exploit the invention through licensing or other lawful means. The Section also was concerned with the significant adverse effects that denying a permanent injunction in cases where the patentee is merely licensing or attempting to merely license its patented invention would have on existing patent licenses.[3]

SUMMARY OF THE ARGUMENT

The practicing patent bar and its clients require predictability with respect to the nature of enforcement of

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[3] At its February 13, 2006 meeting, the House of Delegates of the ABA adopted the following statement as policy of the Association:

RESOLVED, that the American Bar Association supports the granting of a permanent injunction enjoining a patent infringer from future infringement of a patent that has been adjudicated to be valid, enforceable and infringed, in accordance with the principles of equity on such terms as the court deems reasonable;

FURTHER RESOLVED, that the Association opposes consideration of the extent to which the patent owner has practiced the patented invention or has licensed others to do so, except when determining whether grant of a permanent injunction would adversely affect public safety, public welfare, the national security, or the like.

patents. Attorneys must advise clients whether to undertake the very substantial expense of bringing a patent infringement action, whether and how to defend such an action, and whether to proceed through trial rather than reach an accommodation. Given the limited duration of patents, and the potential for multiple infringers if patents are not vigorously protected, patentees must make these choices quickly and with the knowledge that failure to bring a claim may undermine the very essence and value of its patent right to exclude others from making, using, offering for sale or selling the patented invention for a limited time. 35 U.S.C. § 154(a)(1); *Zenith Radio Corporation v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969); *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429-430 (1908). The ABA respectfully submits that the Federal Circuit correctly articulated the expectation of Congress and patent litigants based on over a century of decisions in holding that a patentee is entitled to a permanent injunction against an infringer absent some special circumstance. That decision should not be disturbed.

The right to permanently exclude an adjudicated infringer from continuing to practice the patented invention finds its basis in the Constitution and is a fundamental right recognized by Congress for the benefit of patentees, whether they practice their patented inventions or choose only to exploit their property rights through licensing or other lawful means. Because a patent confers no affirmative rights, without this well-established right to exclude, a patent has no intrinsic value.

Existing statutory law and the jurisprudence of this Court and the U.S. Courts of Appeals, including in particular the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit"), support the granting of permanent injunctions in all cases of adjudicated infringement, except in those rare situations in which the injunction would adversely affect

public safety, public welfare, the national security or interests of similar importance to the public. The Federal Circuit applied these longstanding principles in this case. That court has not, as has been argued, adopted a *per* se or "near automatic" rule that divests the district courts of the equitable discretion provided under 35 U.S.C. § 283.

The patent statute and judicial precedent recognize that a district court must exercise discretion in deciding whether to grant or deny a permanent injunction. The Federal Circuit acknowledged that responsibility in this case. *MercExchange L.L.C. v. eBay.com Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005).

However, the district court's discretion does not extend to making policy determinations reserved to Congress. Rather, this equitable discretion is limited to historically recognized equitable considerations, not ad hoc considerations of recent vintage. Accordingly, a district court is not empowered to deny a permanent injunction based on the nature of the patented subject matter of a patent or the nature of the patentee's activities in exploiting its patent absent the presence of important public interests. Such fundamental changes to long-established rules of patent law, that have been relied upon for generations by practitioners and industry, should come from Congress and not the courts.

This case does not compel a departure from more than one hundred years of legal precedent. The private interests of adjudicated infringers and the policy arguments that Petitioners ask this Court to endorse would erode the value of patents and their attendant incentives for innovation.

Accordingly, the ABA respectfully submits that the two questions posed by the Court should be answered in the negative.

ARGUMENT

I. This Court's Longstanding Precedent Should Not Be Upset.

Patent law has been consistent and predictable in resolving the manner in which patent rights may be enforced against infringers. This consistency and predictability has been relied upon by patent practitioners in advising their clients on the acquisition and enforcement of patent rights for the last century.

Contrary to the argument of Petitioners that the Federal Circuit altered this law or adopted a new "near-automatic" rule,[4] in fact, the Federal Circuit's decision is consistent with the precedent that has been relied upon by patent practitioners for more than a century that has favored but not absolutely mandated injunctions against adjudicated infringers in patent cases. *See, e.g.,* Albert H. Walker, *Textbook of the Patent Laws of the United States of America* § 697 (1883) ("A permanent injunction follows a decision in favor of the complainant on the interlocutory hearing of a patent case, unless some special reason exists for its being refused."). *See also* John Norton Pomeroy, 4 *A Treatise on Equity Jurisprudence* § 1352 (Spencer W. Symons ed., 5th ed. 1941); William C. Robinson, 3 *The Law of Patents for Useful Inventions* § 1220 (1890).

This Court's decision in *Continental Paper Bag Co., supra,* rejected a minority view[5] that a non-practicing patentee should not be permitted to obtain an injunction

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[4] Petitioners' Merits Brief at 16.

[5] Prior to 1908 a decision not to enter a permanent injunction against an adjudged infringer was limited to "peculiar" cases. Thomas Carl Spelling, 1 *Treatise on Injunctions & Other Extraordinary Remedies* § 831 (2d ed. 1901).

against an infringer. After observing that many foreign countries had compulsory licensing requirements for non-worked patents and that Congress had chosen not to adopt such a system in this country, the Court rejected the contention that a patentee's "unreasonable nonuse" deprived it of the right to a permanent injunction. Indeed, the Court held that:

> [i]t hardly needs to be pointed out that the right [of the patentee] can only retain its attribute of exclusiveness by a prevention of its violation. *Anything but prevention takes away the privilege which the law confers upon the patentee.*

210 U.S. at 430 (Emphasis added).

In 1952, the patent statute was recodified and the injunction statute was reenacted at 35 U.S.C. § 283. As this Court noted in *Graham v. John Deere & Co.*, 383 U.S. 1, 16 (1966), such re-enactment has the effect of continuing this Court's precedent under prior statutes. Further, Congress has declined to include working requirements or compulsory licensing provisions in the patent statute in 1952 or at any subsequent time.[6] This case does not justify judicial policymaking where Congress has consistently declined to act.

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[6] The only major exception to this is the public interest. Because of the acknowledged public interest when a patent is used without authorization by or for the U.S. Government, there is never an injunction, but only reasonable compensation for such unauthorized use. 28 U.S.C. § 1498(a).

II. Absent Exceptional Circumstances, Equity Favors The Entry Of A Permanent Injunction Against An Adjudicated Infringer Of A Valid Patent.

Irreparable injury has always been assumed where a patent has been found valid and infringed. This is an outgrowth of the doctrine that the owner of a statutory privilege or franchise is presumptively entitled to an injunction against its invasion.[7] Further, a patent is a wasting asset. Because the exclusive right granted by a patent exists for a limited time only and cannot be replaced, the unauthorized denial of that limited exclusive right has been deemed to be an irreparable harm not compensable by monetary damages. *Smith Intern., Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983) ("Where "validity and continuing infringement have been clearly established, as in this case, immediate irreparable harm is presumed.").

The availability of money damages is not an adequate remedy. If the willful infringement continues beyond the judgment of validity and infringement, such damages could only be recovered in successive lawsuits and accountings or through prospective compulsory licensing – a remedy that is not authorized by 35 U.S.C. § 284.

The argument that a patentee's required recourse should be to file successive infringement actions also has historically been rejected for over a century, and no new reason exists to impose such a burden now. *See* William Robinson, 3 *The Law of Patents* § 1168 (1890) ("[A preventive injunction] removes from [the patentee] the danger of an irremediable injury, precludes the necessity of successive suits for his successive wrongs and interposes in

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[7] *Livingston v. Van Ingen*, 9 Johns. 507 (N.Y. 1812) (Kent, J.)(discussing American and English precedent regarding the availability of injunctions against violations of statutory privileges).

the path of the infringer an obstacle which he cannot overcome. It is the proper compliment of that legislative action which confers upon the inventor his exclusive privilege . . . ."); *Allington & Curtis Mfg. Co. v. Booth*, 78 F. 878, 879-80 (2d Cir. 1897) ("A decree for damages and profits in an equity cause would fall short of adequate redress to the patentee. He is entitled to an injunction as well as to an accounting of damages and profits.").[8]

When courts have denied permanent injunctive relief after an adjudication of patent validity and infringement, they have almost always done so in cases in which the patent owner's inability to supply the patented product or service would have had a substantial adverse impact on the public. *See, e.g., Rite Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995)(en banc). Indeed, *Continental Paper Bag* expressly left open the "public interest" as a basis for denying an injunction against a non-practicing patentee. The private interests of the adjudicated infringer should not operate to deny the patentee the benefit of its innovation.

III. The Other Factors Suggested By Petitioners And Amici That Support Their Position Are Not Valid Equitable Considerations.

This Court should not set aside a long standing rule of equity and substitute an ad hoc policy-based rule in its stead. To do so would be contrary to the principled application of

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[8] *Id.* And as Justice Story pointed out in his treatise on equity:

> It is quite plain that, if no other remedy could be given in cases of patents and copyrights than an action at law for damages, the inventor or author might be ruined by the necessity of perpetual litigation without ever being able to have a final establishment of his rights.

William Story, *Commentaries on Equity Jurisprudence* § 931 (1836).

standards that this Court explained in *Ford Motor Co. v. E.E.O.C.*, 458 U.S. 219 (1982):

> [W]hen Congress invokes the Chancellor's conscience to further transcendent legislative purposes, what is required is the principled application of standards consistent with those purposes and not "equity [which] varies like the Chancellor's foot." Important national goals would be frustrated by a regime of discretion that "produce[d] different results for breaches of duty in situations that cannot be differentiated in policy.

458 U.S. at 227.

Petitioners assert that this Court should reject the traditional rules of equity and adopt three classes of considerations: (1) independent subsequent discovery of the invention; (2) discrimination against certain types of non-practicing users and (3) defenses based upon perceived failings of the U. S. Patent & Trademark Office ("USPTO"). The Court should decline this invitation.

A. Congress Has Exclusive Authority To Establish New Equitable Defenses That Did Not Exist At Common Law.

In *Northwest Airlines, Inc. v. Transport Workers Union of America, AFL-CIO*, 451 U.S. 77 (1981), this Court held that equitable considerations are properly addressed to Congress, not to the federal courts, because Congress is better able to evaluate policy considerations regarding recognition of new equitable defenses:

> [T]he equitable considerations advanced by Petitioners are properly addressed to

> Congress, not to the federal courts. Congress is best able to evaluate these policy considerations:
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> [T]he claim now asserted, though the product of a law Congress passed, is a matter on which Congress has not taken a position. It presents questions of policy on which Congress has not spoken. The selection of that policy which is most advantageous to the whole involves a host of considerations that must be weighed and appraised. That function is more appropriately for those who write the laws, rather than for those who interpret them."

451 U.S. at 88, n.41; *See also Grupo Mexicano De Desarrollo, S.A., v. Alliance Bond Fund, Inc.*, 527 U.S. 308, 333 (1999) ("The debate concerning this formidable [equitable] power [a *Mareva* injunction] over debtors should be conducted and resolved where such issues belong in our democracy: in the Congress.").

B. Independent Discovery Without Notice Of The Patent And A "Close Case Of Infringement" Are Not Viable Equitable Defenses.

The Court should reject the suggestion that no injunction should issue if the defendant begins its infringement without knowledge of the patent or if there is a "close" case of infringement. Patent infringement is a strict liability offense and a person can be found liable as an infringer even without knowledge of the patent. *See* 35 U.S.C. § 271. Further, neither of these considerations is a valid legal defense under current law. This Court should not recognize new defenses in equity where none exists at law.

C. General Issues Relating To Patent Quality Are Not Valid Reasons To Refuse An Injunction Upon A Patent That Has Been Found Valid And Infringed.

The ABA, like some other amici in this case, has been actively working with Congress and the USPTO to improve patent quality. The ABA shares the concerns of the other amici regarding patent quality. However such general considerations are irrelevant when applied to an issued patent, which is entitled to a presumption of validity under the patent laws. 35 U.S.C. § 282. Moreover, by the time a court considers granting a permanent injunction, it will already have determined that the patent is valid and infringed after rigorous *inter partes* proceedings.

A belief that the USPTO is not properly performing its duties is not a valid basis for denying injunctive relief. Such issues go far beyond the case and controversy before the district courts, which are not charged with overseeing the operations of agencies of the executive branch of government, such as the USPTO.

D. Whether To Limit The Availability Of Injunctive Relief To Certain Classes Of Patentees Is A Decision Reserved To Congress.

Whether injunctions should be limited to certain patentees is an issue for Congress – not the courts. In essence, Petitioners and the amici who support them request that this Court set forth a basis for discriminating between two classes of patentees.

Some amici suggest that non-practicing patentees do not promote the progress of the useful arts and are therefore not entitled to the benefit of an injunction. Implicit in this suggestion is a contention that any non-practicing entity that

seeks to enforce its patent rights is abusing the patent system. This is not true.

Individuals, businesses, and academic institutions throughout this country make inventions, patent those inventions, and seek the patent system's financial incentives by licensing or attempting to license their patented inventions rather than making and selling their inventions on their own.[9]

The denial (or unavailability) of a permanent injunction against future infringement to such persons adversely affects both the royalty that prospective licensees will be willing to pay for a negotiated license and the "reasonable royalty" that a court will be willing to award pursuant to 35 U.S.C. § 284. Without the threat of an injunction, a would-be infringer has little incentive to avoid infringement or to settle a patent infringement case after infringement has begun. Indeed, the would-be-infringer may even be encouraged to attempt any potential defense knowing that if he loses, he only risks being required to pay a reasonable royalty.

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[9] Many colleges and universities earn considerable royalties from their intellectual property. For example, Harvard University reported earning $23.7 million in royalty fees from its intellectual property in fiscal year 2004, *see* Harvard University, Office of Technology Development (OTD), *Annual Report to the Committee on Patents and Copyrights Fiscal Year* 2004 5 (2005), while the University of Michigan reported royalty earnings of $16.7 million. *See* University of Michigan Tech Transfer, 2005 *Annual Report* 1 (2005).

Smaller universities also benefit greatly from the royalty income generated from their intellectual property. For example, Case Western Reserve University in Cleveland, Ohio, reported royalty earnings of $8.4 million between July 1, 2004 and June 30, 2005. *See* Case Western Reserve University, *Technology Transfer Office 2005 Annual Report* at 5 (2005). These universities engage in significant basic scientific and technical research. If their ability to license their technologies is diminished, their incentive to conduct research may also be diminished, and the public will suffer as a result.

Attacks by defendants upon allegedly unscrupulous patent enforcers have been a part of the patent system since its inception. The 1836 Patent Act, which created the Patent Office, explained that it was enacted to remedy "evils which necessarily result[ed] from the [1793 statute]" including "worthless and void [patents]" and "a great number of lawsuits . . . which are onerous to the courts, ruinous to the parties and injurious to society."[10]

In 1883, Justice Bradley's opinion in *Atlantic Works v. Brady*, 107 U.S. 192 (1883) attacked "speculative schemers [patentees that obtain patents] which enable them to lay a heavy tax upon the industry of the country, without contributing anything to the real advancement of the art." *Id.* at 231. Congress has been well aware of these issues for a very long time, but has not acted. Congress' long silence on the subject of non-practicing patentees speaks loudly to this issue.

For the last year, Congress has been debating legislation to alter the patent system. Indeed, the Senate Judiciary Committee held a hearing directed to the specific issue now before this Court.[11] An early draft of pending legislation contained a provision that would have substantially amended § 283. However, this provision was eliminated from the pending legislation based on input from industry groups, bar associations, and other interested parties.

Many of the amici in this case have participated in the debate over the pending patent reform effort. These parties

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[10] Senate Report Accompanying Senate Bill 239, 24th Congress, 1 Session (*Chisum on Patents* Appendix 12 at 4).

[11] Hearing of Senate Judiciary Committee, Subcommittee on Intellectual Property, *Patent Law Reform: Injunctions and Damages* (June 14, 2005).

now seek to obtain from this Court the relief that they apparently were unable to obtain from Congress.

In *Northwest Airlines*, the petitioners requested that this Court recognize a new equitable defense. This Court, declined the invitation in that case, and it should decline the invitation in this case as well and defer to Congress on this issue.

IV. There Would Be Significant Consequences If This Court Changes The Current Standard For Granting Injunctions.

All patent licenses (since at least as early as this Court's 1908 ruling in the *Continental Paper Bag* case) have relied upon the general rule that a patentee – even one who is merely licensing, or is trying to merely license, his patented invention – is entitled to a permanent injunction against an adjudicated infringer. A change in that venerable general rule would have profound, immeasurable economic consequences on existing and future patent licenses. The judiciary is ill-equipped to decide whether the public interest would be better served by preserving or changing that general rule which has provided the economic foundation for patent licenses for a century or more.

A. There Would Be Significant Adverse Consequences To Existing Exclusive Licenses.

With respect to existing exclusive licenses, the inability of a patentee to get a permanent injunction – after his patent has been held valid, enforceable, and infringed – would eliminate the exclusivity that was the very foundation of the exclusive license. Because exclusive license royalties (lump sum, running royalty, or combination) are higher than nonexclusive license royalties, the effect on existing exclusive licenses would be pronounced if the exclusivity

were eliminated by the inability of the patentee to permanently enjoin an infringer. For example, the exclusive licensee might then seek to rescind the license and/or obtain a partial or total refund, issues that are currently unaddressed. An abrupt change in the law would be chaotic for existing exclusive licenses negotiated under the long standing general rule that a non-practicing patentee is entitled to a permanent injunction against an adjudicated infringer.

B. There Would Be Significant Adverse Consequences To Existing Nonexclusive Licenses.

An abrupt change in the law would be equally chaotic for existing nonexclusive licenses negotiated under the long standing general rule that a non-practicing patentee is entitled to a permanent injunction against an adjudicated infringer. If a non-practicing patentee cannot get a permanent injunction against an adjudicated infringer, would the patentee lose his royalty streams from existing nonexclusive licensees? What would be the effect on the agreed royalty rate (lump sum, running royalty, or combination) if the patentee could not obtain a permanent injunction against an adjudicated infringer?

Existing nonexclusive licenses typically have a most-favored-licensee clause that prevents a licensor from granting subsequent licenses on more favorable terms than those of the original licensee. Such licenses also often require a licensor to notify the original licensee of subsequent licenses and allow the licensee to substitute the more favorable terms for the terms in its original license.[12] Some, if not many or most, nonexclusive licenses include a provision allowing the licensee to notify the patentee of substantial infringing competition and to pay royalties into escrow if the patentee

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[12] *See* David Epstein, 1 *Eckstrom's Licensing in For. & Dom. Ops.* § 3.40 (2005).

does not abate the infringing competition – so that the nonexclusive licensee is not indefinitely subjected to unfair competition from an infringer who is paying no royalty.[13]

If implemented, the changes advocated by Petitioners and the amici who support them would produce uncertainty and result in the devaluation of existing and future patent license rights. Patent practitioners must have certainty to be able to advise their clients in advance of deciding whether to pursue litigation or to grant or accept a patent license. Without the certainty that an adjudicated infringer will be enjoined, the ability to advise clients regarding such matters will be severely compromised. The essence of a patent right is the right to exclude others. Deprived of that right, a patent retains little value.

C. A Change In The General Rule Will Lead To Additional Litigation And Promote Forum-Shopping.

In addition to devaluing patent rights, changing the standard for injunctive relief would also lead to more litigation and a greater likelihood of forum-shopping. The real threat of a permanent injunction is a major factor that currently must be considered in evaluating the risks of continued litigation of any suit for patent infringement. The risk of a permanent injunction might cease to be a consideration – especially if this Court were to declare "close infringement" or "independent creation" viable defenses to an injunction. As a result, defendants would be more inclined to "roll the dice" and litigate such cases to judgment, rather than entertain possible settlement, if they believed that the worst case scenario would merely require a royalty payment.

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[13] Harold Einhorn & Thomas J. Parker, 1 *Patent Licensing Transactions* § 2.16 (2005 ed.).

Permitting district courts to consider a wide variety of new factors in deciding whether to impose an injunction would also create an incentive for patentees to "forum-shop" and file lawsuits in those jurisdictions where the bench is thought to favor permanent injunctions against infringers. This would have the effect of undoing one of the goals for which the Federal Circuit was created, the elimination of forum-shopping in patent cases.[14]

CONCLUSION

For the reasons set forth above, the ABA respectfully submits that the Court should affirm the judgment of the United States Court of Appeals for the Federal Circuit.

Respectfully submitted,

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[14] House Report No. 97-312, 97th Cong. 1st Sess. (1981)(reprinted in *Chisum on Patents* at A21-7 to A21-11).